

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 12/29/2015

GAIN Report Number: ES-1508

El Salvador

Retail Foods

Annual Report 2015

Approved By:

Todd Drennan, Regional Agricultural Counselor

Prepared By:

Elvy Huezo, Agricultural Marketing Assistant

Report Highlights:

U.S. consumer oriented food products exports to El Salvador increased 13.7 percent during the 2013/2014 period, reaching a record \$149 million in 2014. Best prospects for U.S. food products include: ready-to-eat, select red meats, fruits and specialty dietary products.

Post:

San Salvador

Executive Summary:**SECTION I. MARKET SUMMARY****Country Snapshot**

- El Salvador, located in Central America, shares borders with Guatemala and Honduras. With a total area of 13,074 square miles (21,041 km²), and a population of approximately 6.4 million people, El Salvador has one of the highest population densities in the region. It is the smallest country in Central America. El Salvador is divided into 14 departments and the capital city is San Salvador.
- The U.S. dollar is the official currency. El Salvador is the fourth largest economy in Central America. With the global recession, real GDP contracted in 2009 and economic growth has since remained low, averaging less than 2 percent from 2010 to 2014.
- The United States is the most important trading partner, with 46 percent of exports and 41 percent of imports being with this market.
- Total U.S. consumer oriented food products imports in 2014: \$149 million.
- Imports from neighboring countries (Guatemala, Mexico, Nicaragua, Honduras, and Costa Rica) include a large variety of products such as fresh fruit and vegetables, dairy products, meats, cereals and beans. Other major suppliers that seek to increase their exports to El Salvador include Republic of China, Canada, Chile, and Panama.
- The U.S.-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) entered its 9th year of implementation in El Salvador on March, 1, 2015. CAFTA has strengthened imports of processed foods, making it possible for consumers to have more variety and higher quality food products.
- Like the rest of Central America, El Salvador offers an open market for U.S. goods and services. Tariffs historically are relatively low, and were reduced further with the implementation of CAFTA-DR. The value-added tax (VAT) rate is 13 percent. Standards are based on ISO Standards, or Colombian, Mexican, and U.S. standards are used as reference. Labeling and testing are not major issues.
- El Salvador has a stable economic system, but has not been excluded from the global economic crisis. This economic environment has forced the country to change import strategies, such as local supermarket chains joining forces with other supermarkets in the region to streamline import volumes and obtain better prices, thus expanding their distribution systems.
- El Salvador's tourism industry has steadily grown over recent years, as the Salvadoran government focused on developing this sector. In June 2015, the Ministry of Tourism reported that total income from this sector in 2014/2015 was \$1,110 million dollars, increasing the share of this sector to 4.7 percent from 3.7 percent of GDP in 2013.

Author Defined:

Advantages and Challenges Facing U.S. Products in El Salvador

Advantages	Challenges
Major retailers have expanded the number of stores and floor space during the last few years. The trend is to continue their geographical expansion.	A good number of consumers opt to trade down to less expensive options of basic products due to economic difficulties.
Information and technology have become strong tools for food marketing/selling. Product bar codes and scanners at point-of-sale are great tools to increase profitability and control stocks. In addition, major supermarket chains have launched online stores to reach millennials and the Salvadoran diaspora.	Market leaders are investing in construction of modern shopping centers in which supermarkets are the anchor points. Investment also includes state of the art technology, logistics, remodeling and improving service areas.
A more educated, bilingual (English/Spanish), and younger population are looking for American products/brands/franchises in order to achieve a more “American” lifestyle due to ties with relatives living in the U.S.	High marketing costs (advertising, discounts, sampling, etc.) are necessary to promote new market products.
The tourism and restaurant sectors are growing and dynamic sectors for U.S. exports. Specifically, the convention tourism is growing, so foreign business people that come to these events are usually looking for brand names of imported foods they are familiar with.	Overall, the Salvadoran economy remains very susceptible to any world event that may disrupt tourism and investment (i.e. the global economy)
Major retailers are developing increasingly sophisticated distribution systems, which will provide more space and better cold chain infrastructure for high value frozen and refrigerated imports.	Security is a major concern in El Salvador and the local authorities still need to improve their security programs.
Supermarket chains have gained greater negotiation power with manufacturers, giving them access to continuous price promotions and marketing activities.	Category management practices include charging slotting fees for products, which are absorbed by the supplier.
The private label segment is rapidly growing at supermarkets; therefore there is high potential for U.S. companies that could provide private label final food products and/or ingredients and intermediate products.	Growing number of customs and non-tariff barriers being implemented by new government employees, which result in a lack of consistency with customs procedures. In some products, there are problems obtaining a Certificate of Free Sale which makes it difficult to register some U.S. food products.
CAFTA's entry into force opens a number of good market opportunities including the use of tariff rate quotas. U.S. food safety is highly appreciated. For instance, FDA norms are being used by government health authorities in some instances as a reference to enforce more efficient regulations to safeguard consumers.	

II. ROAD MAP FOR MARKET ENTRY

A. SUPERMARKETS, SUPERSTORES, HYPERMARKETS, CLUB AND WAREHOUSE OUTLETS

Entry Strategy

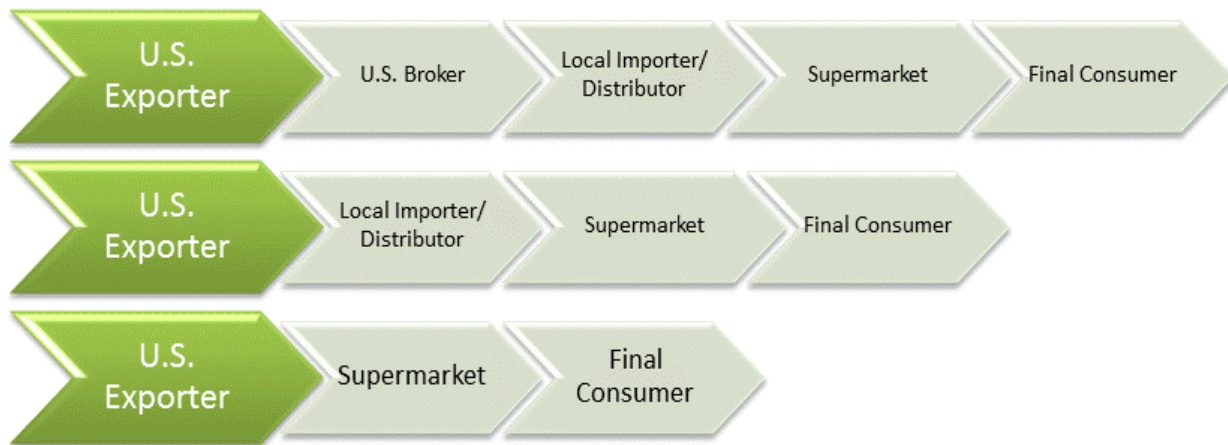
El Salvador is a dynamic importing sector that is open and constantly looking for foreign products. There is a wide array of products that are competitive in both price and quality. In order to better penetrate this market, these are important suggestions to take into account:

- To reach consumers, there are different approaches: through a direct importer such as a supermarket chain, a wholesaler/distributor or through a specialized importer.
- Regardless of strategy, U.S. exporters need a local partner to educate and update them about market consumer trends and development, product registration procedures, and business practices.
- To appoint a local distributor/importer, a U.S. firm has to make sure that the local distributor has a good credit standing (the U.S. Department of Commerce offers a Gold Key service that provides information on local importers), and then sign a contract with a local lawyer.
- Wholesalers/distributors and importers play an important role with Salvadoran supermarket retailers, since the bulk of supplies on the shelves come either from local agents or importers. However, more and more, large supermarket retailers prefer to import directly from U.S. suppliers.
- Point of Sale (POS) material/give away items and tasting of the products are very important to promote food in this market. In addition, advertising through newspapers, radio, and television is recommended.

- Attend U.S. food trade shows to meet Salvadoran buyers. Marketing managers attend U.S. trade shows regularly and believe that this is the best way to find new products to introduce to this market.
- To get an idea about who are the main importers/distributors in El Salvador, U.S. exporters are highly encouraged to look up at the webpage of ADES- Salvadoran Distributors Association: (www.ades.org.sv). This association manages the relationship of its members with local retailers, wholesalers, and supermarkets and can provide a good starting contact to enter the market.

Distribution Channels

Three distribution trends operate in the Salvadoran market:



Supermarket Profile:

Supermarkets in El Salvador are reticent to release exact sales information. Therefore, sales have been categorized as follows:

- A: Less than 10 million
- B: \$11 - \$25 million
- C: \$26-\$75 million
- D: \$76 - \$100 million
- E: \$101 - \$150 million

F: More than \$150 million

Owner Group	Supermarkets, Hypermarkets and Club Outlets	Current Stores	Estimated annual sales	Purchasing Agent Type
Calleja, S.A. de C.V.	Super Selectos	82	F	U.S. Broker/Importers/Direct
	Selectos Market 2/	13	B	U.S. Broker/Importers/Direct
Walmart Mexico y Centroamerica	Walmart Supercenter	4	F	U.S. Broker/Importers/Direct
	Despensa de Don Juan	20	E	U.S. Broker/Importers/Direct
	Despensa Familiar 1/	60	B	U.S. Broker/Importers/Direct
	Maxi Despensa	8	C	U.S. Broker/Importers/Direct
Price Smart	Price Smart	2	F	U.S. Broker/Importers/Direct
TOTAL		189		

Source: Information provided by supermarkets. For those who declined to release sales information, an estimate was made by FAS, San Salvador.

1/ Smaller popular area stores

2/ Medium size stores located in middle lower class areas-In transition to become Super Selectos.

Retail Sector

Overview:

The market expectations for the Retail Foods Sector remain positive, as it continues to be a key area of the Salvadoran economy, supported by employment, increasing purchasing power, mainly fueled by remittances, and a steady expansion of consumer credit.

Hypermarkets/supermarkets, convenience stores, coexist with the traditional small grocery stores (mom-and-pop) and open-air markets.

There are two dominant supermarket chains in El Salvador: Super Selectos and Walmart Mexico y Centroamerica. In addition, there is also the participation of **PriceSmart**, with headquarters in San Diego, California and has two stores in El Salvador - both of which are located in the capital city of San Salvador. Similar to membership warehouse clubs in the United States, it carries a mixture of groceries, apparel, electronics, household goods, and automotive parts. PriceSmart's first chosen location (1999) was in the upscale Santa Elena area, and it initially focused on two market segments: the growing upper middle class seeking imported goods, and restaurants looking for a source of premium

ingredients/products alongside known staples and local brands. As PriceSmart's presence became stronger, its offerings appealed to the larger middle class and the second store opened in a few blocks away from the popular Metrocentro shopping mall. It is more accessible than the Santa Elena location and it has made American imports available to consumers that were familiar with them via firsthand migration or by proxy through family members in the United States.

One the latest trends of the two major players of the retail sector, Super Selectos and Walmart, is the development of a wide range of Private Label products, since a good number of their clients are constantly looking for better quality products at a more competitive price.

In this regard, Super Selectos currently has 10 private label brands with a total of 2,200 products and it is planning to introduce 309 new products under this segment, so that they can participate in all of the supermarket categories, as per the Private Label division of Super Selectos.

Walmart, on the other hand, currently accounts six private label brands locally, which offer 385 products in total. Although there are no immediate plans to launch new products, their Corporate Relations Manager has stated that they will keep working in more and new product design to respond to their clients' demands and needs.

Major Supermarket Chains:

Super Selectos supermarket is owned by the Calleja Group. This local supermarket chain currently accounts 95 stores, and with its slogan "The Salvadorans' supermarket" ("El Super de los Salvadoreños") keeps a fierce competition among other retailers.

In 2008, Grupo Calleja, along with other seven supermarket chains from the Central American/Panama region joined in a strategic alliance named SUCAP (Panama and Central American Supermarkets).

SUCAP groups 8 different supermarket chains that combined add up 330+ stores in the region. SUCAP negotiates and buys in large volume for the region; therefore they get lower prices which can be transferred to the final consumer. The members of SUCAP are: La Colonia (Honduras), Super Selectos (El Salvador), La Torre (Guatemala), La Colonia (Nicaragua), Súper 99, El Machetazo (Panama), Gessa and Automercado (Costa Rica).

Although SUCAP is a method of procurement for Super Selectos, they also use all other sourcing methods, such as buying from local importers, distributors and import directly from international suppliers.

Walmart Mexico y Centroamerica is the largest retailer in the region with over 600 stores. In El Salvador, there are a total of 92 stores. In order to reach different consumer segments, Walmart has stores in four different formats: Walmart Super Centers, Despensa de Don Juan, Maxi Despensa and Despensa familiar.

Walmart entered the region in 2005 and became Walmart Centroamerica in 2006. In 2009, Walmart Mexico acquired Walmart's operations in Central America from Walmart Stores, Inc. and two minority partners. In 2010, Walmart Mexico became "Walmart de Mexico y Centroamerica".

Walmart is positioning as the place where "You always find everything and pay less", promising low prices and deep discounts, as well as offering a wide range of products from food to electronics and

more recently a tire shop. In 2015, Walmart invested about \$38 million to open 4 new retail outlets, as well as a revamp to many of their stores in order to provide a better shopping experience and lure new customers to their retail outlets.

B. CONVENIENCE STORES, GAS MARTS

Convenience stores at gas stations are becoming more active players in the retail sector. Some of these stores have shifted from only offering light snacks and beverages to having a more complete menu that includes serving 3 main meals a day (breakfast, lunch and dinner), and also offering ready-to-heat, ready-to-eat products, dairy products and cereals. _

There are over 300 gas stations in El Salvador belonging to four different companies: Texaco, Unopetrol, Puma and Alba Petroleos. Each company has its own chain of convenience stores:

- Puma- Super 7
- Texaco-Food Mart
- UNO- Flashmart
- Alba Petroleos- El Camino

However, in addition to the above major companies, there are about 100 more gas stations that are known as “White Flag”, meaning they are independently owned, not carrying a specific foreign oil brand. Most of these independent gas stations have a convenience store as well.

Distribution Channels

- Sourcing and distribution is mainly through local distributors, direct imports are minimal.

Entry Strategy:

- Convenience stores at gas stations are potential markets for new products.
- New products must be presented to the purchase manager of each chain and a local distributor must be appointed.
- Purchasing managers should be invited to main U.S. Food Tradeshows and any local U.S. Food product exhibitions.
- Customers need to be familiar with products; therefore, new products have to be introduced with a promotional campaign that includes sampling/tasting.

Sub-Sector Profile:

As in the case with supermarkets, sales have been categorized as follows:

A: Less than 10 million

B: \$11 - \$25 million

C: \$26-\$75 million

D: \$76 - \$100 million

E: \$101 - \$150 million

F: More than \$150 million

Retail Name and Outlet Type	Ownership	No. of Outlets	Locations (city/region)	Estimated Sales (\$Mil)
FlashMart / Pronto (1 new store- high end profile)	UNO Petrol /1	90	Nationwide	C
Super 7	Puma /2	94	Nationwide	C
Food Mart	Chevron/Texaco U.S.	79	Nationwide	C
El Camino	Alba Petroleos de El Salvador/PDV Caribe, S.A./3	51	Nationwide	B

- Products sold at the stores also come from Canada, Central America, Colombia, Argentina, Chile Uruguay and Europe.
- 85 percent of beer sales are domestic product, 5 percent from the U.S., 8 percent from Mexico, and the rest from Europe.
- Most convenience stores located in the metropolitan area have additional services and products such as phone cards, ATM's, car wash and tune-up services.
- Store sizes vary; the largest is approximately 1400 square feet and, the smallest 430 square feet.

C. TRADITIONAL MARKETS: “MOM AND POP” SMALL INDEPENDENT GROCERY STORES AND WET MARKETS

- Traditionally, wet markets have been the most popular places to get fresher and less expensive fruits, vegetables, red meat, poultry, eggs, pork, and fish.
- There are nine public markets in San Salvador city, and at least one in each small town or municipality.

- Security has become an important issue when determining where to make food purchases. Supermarkets offer a more secure and comfortable environment for shopping than public markets.
- The trend is to purchase in supermarkets, especially for the upper and middle classes. Lately, there has been a substantial increase of supermarket customers from the working class and supermarket are opening in lower income areas.
- Few U.S. foods products are sold in these markets. However, U.S. fruits are very popular.
- The majority of food products sold are locally produced or come from other Central American countries.
- The number of small “mom and pop”, independent grocery stores in each neighborhood varies depending on the size of the neighborhood, although distributors think that there could be about 70,000 of these across the country, but this is difficult to quantify due to the informal nature in which these stores operate. These are not designed for the customer to easily see the product and select what they need. Sales are made mostly by product name or category, therefore, it is not recommended to develop a strategy to enter this market. The same applies to the rest of the markets reviewed in this section.

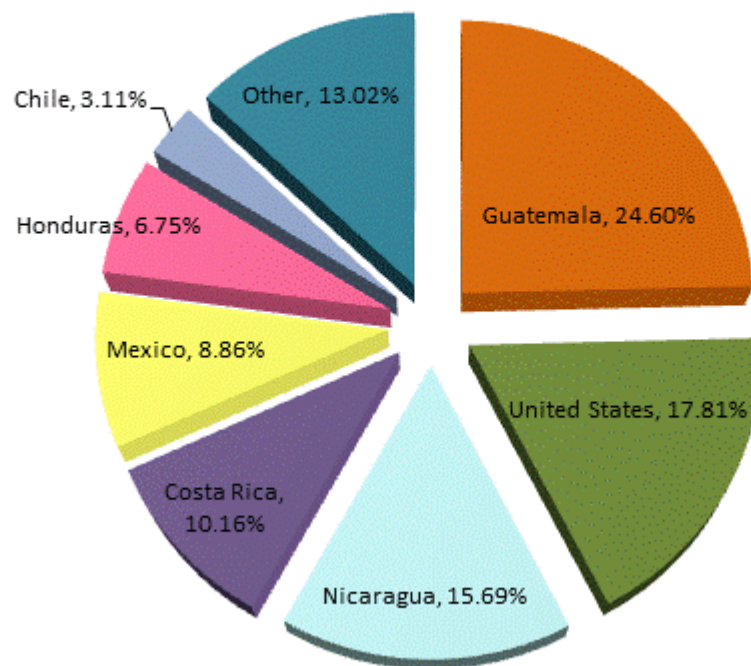
III. COMPETITION, CONSUMER-READY PRODUCTS

- El Salvador is a signatory to the Agreement on Central American Tariff and Duties and a member of the Northern Triangle (commercial agreement with Honduras and Guatemala) and the Central American Common Market. In addition, El Salvador has signed a free trade agreement with Mexico, Chile, Dominican Republic, the United States, Panama. More recently, an Agreement of Association with the European Union (EU) was signed.
- The Central American countries, Mexico, and Chile are the main competitors for the United States in this market.

- In 2014, the U.S. share of the consumer-ready market reached 18 percent. Guatemala accounts for 25 percent, Nicaragua 16 percent, Costa Rica 10 percent, Mexico 9 percent, Honduras 7 percent, and Chile 3 percent.
- Powdered milk is mostly imported from New Zealand, Costa Rica, and Australia. In addition the New Zealand Dairy Board has built a local distribution and packaging facility at a cost of approximately \$5.0 million. Fluid milk is locally produced and also imported from Costa Rica, Honduras and Mexico in UHT long-life packaging. There are also donations of powdered milk for the poor which mainly come from the European Union.
- The Calleja Group (Super Selectos) has invested approximately USD\$60 million in 2014/2015, which has been represented in the opening of 6 new stores and the remodeling of thirty. Part of the investment was also the building of an industrial meat/poultry processing facility in 2014, and the strengthening of their administrative capacities. For 2016, there is an aggressive investment plan that includes the opening of four new stores, remodeling of old ones and the shift to cost efficient and environmental friendly refrigeration equipment, as well as continue the implementation of their plan to use solar panels at their stores as a way of reducing costs.
- Livsmart a health drink company, founded under the name of Bon Appetit in 1981, was acquired in 2009 by the group Cabcorp (The Central America Beverage Corporation). Today, Livsmart is the anchor bottler of PepsiCo for Central America and part of the Caribbean making more than 130 million in annual revenue from drinks made without preservatives.
- Mexican juices and nectars company Jumex has invested \$20 million in its processing plant in El Salvador, which has been operating since the beginning of 2009 as a distribution center for the region. This plant, which will also manufacture its own packaging, is surrounded by 42,000 square meters of land. Jumex Centroamericana, the regional division of Grupo Jumex, has a portfolio of more than 12 different beverage brands as well as a presence in Central America, Panama, Dominican Republic and 12 other Caribbean countries.
- CAFTA-DR has also attracted foreign investment to El Salvador including companies such as CALVO tuna processor from Spain.

- Another important industry in this sector is meat processing. There are approximately 10 companies which are members of the Salvadoran Meat Processors Association (ASICARNE). Imports of U.S. pork meat by this sector have grown tremendously over the last five years (\$11.6 million in 2014), due to the fact that the Salvadoran population is a large consumer of sausage products.
- The Salvadoran market may be significantly larger than portrayed by U.S. export data. A high percentage of El Salvador's imports of consumer-oriented products are actually registered as imported by Guatemala. The main reason is that most imports come through Guatemala's Santo Tomas de Castilla port, and even though they are in-transit to El Salvador, local customs officials tally them as Guatemalan imports. Particularly close links with the United States are evident by the strong commercial relationship between both countries.

CONSUMER ORIENTED AGRICULTURAL PRODUCTS % SHARE



Source: Global Trade Atlas

IV. BEST PRODUCT PROSPECTS

Top 10 best product prospects imports from the United States
--

	(in millions of U.S. dollars)		% Change
Product Description	2013	2014	2013/2014
Beef and Beef Products	3.0	4.0	32.00%
Pork and Pork Products	9.2	11.6	26.70%
Dairy Products	11.0	14.0	27.70%
Fresh fruit	13.1	16.3	24.50%
Processed vegetables	8.7	10.5	20.10%
Chocolate & Cocoa products	6.1	13.3	119.10%
Fruit and Vegetable juices	1.4	1.8	25.90%
Prepared food	35.7	37.8	35.80%
Tree nuts	1.2	2.1	82.70%
Condiments and Sauces	7.4	7.9	6.50%

Source: USDA/FAS BICO REPORT

Products not present in significant quantities, but which have good sales potential:

- Health and nutrition are a main concern for most consumers; therefore, there is a stronger demand and potential for products that are fat free/low fat, low cholesterol, low in sodium, gluten free, and unsweetened or reduced calories beverages.
- Energy boosters: shakes, juices, energy bars
- Organic foods and beverages
- Soy milk, almond milk (unflavored and flavored varieties)
- Whole-wheat or seeds-base products: granola bars, flaxseed products, etc.
- Artisan made and special sauces and condiments
- Pancake mixes
- Soda beverages
- Natural juices, both regular and reduced sugar content (targeted to kids)
- Dairy products
- Cookies/candy
- Deli meats
- Ready-to-eat/heat meals- demand is growing due a larger younger workforce looking

for convenience. Examples of these are ramen style soups, sandwiches, canned soups, etc.

V. POST CONTACT AND FURTHER INFORMATION

Office of Agricultural Affairs

USDA/FAS

U.S. Embassy El Salvador
Blvd. Santa Elena Sur y Calle Conchagua
Antiguo Cuscatlán, La Libertad, El Salvador
Phones: (503) 2501-2999 exts. 3414/3412
Fax: (503) 2278-3351
E-mail: agsansalvador@fas.usda.gov
Website: www.fas.usda.gov

SUPER SELECTOS

(Calleja, S. A. de C. V.)
Prolongación 59 Ave. Sur entre Avenida
Olímpica y Calle El Progreso
San Salvador, El Salvador
Contact: Mr. Jose Alberto Corpeño, Purchasing and Categories Director
Tel.: (503) 2267-3628/ 2267-3600
E-mail: jcorpeno@superselectos.com.sv

PRICESMART

Boulevard Sur, Calle Cortez Blanco,
Avenida El Pepeto, Urb. Madre Selva,
Antiguo Cuscatlán, El Salvador
Contact: Mr. Luis Rivera- Imports Manager
Tel.: (503) 2246-7400
E-mail: lurivera@pricesmart.com

WALMART MEXICO Y CENTROAMERICA

Alameda Roosevelt y 65 Ave. Sur
Centro Financiero Gigante
Torre E, Nivel 8, San Salvador, El Salvador
Contact: Mr. Jose Antonio Alvarado- Commercial Manager
Tel: (503) 2523-6800
E-Mail: jose.a.alvarado@walmart.com